



*Andrew Junkin
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Managing Director*

May 27, 2007

Dr. Russell Read
Chief Investment Officer
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: TIPS Policy

Dear Russell,

You requested Wilshire's opinion with respect to the proposed policy for the CalPERS Treasury Inflation Protected Securities (TIPS) Fund. The TIPS Fund will be used in the Supplemental Investment Program as a fund choice available to participants. Wilshire recommends that the Policy Subcommittee adopt the proposed policy.

Wilshire has worked with Staff to develop appropriate guidelines for this program. Since this program will be benchmarked to a TIPS only index and the only permissible securities are TIPS, nominal treasury bonds (in small amounts), and money market funds, many of the risks of a typical bond program have been eliminated. Without corporate bond holdings, there will be no credit risk in the portfolio. Without structured bonds (CMOs, CMBS, ABS, etc.), the portfolio will not be subject to the various prepayment speeds attendant to those security types. The duration of the portfolio will be tightly controlled within a band of +/- 10% of the index's duration.

Additionally, in order to be consistent with all other policies, this policy is formatted using the current template in use in the Policy review project.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in black ink, appearing to read 'Andrew Junkin', is written over a light blue horizontal line.